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Action

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FROM: BERLIN

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TO: Secretary of State

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SENT BONN 909, DEPARTMENT 1022, REPEATED INFORMATION LONDON 202, MOSCOW 306, PARIS 245, PRIORITY GENEVA 50 POLAD USAREUR UNNUMBERED.

GENEVA FOR HILLENBRAND

PARIS FOR EMBASSY, USRO, CINGEUR THURSTON & WEST

RMR

RECENT STATEMENTS BY ULBRICHT AND OTHER GDR OFFICIALS (BERLIN TEL 1010 DEPT, 898 BONN, 42 GENEVA) PLACE PARTICULAR STRESS ON OBTAINING "FREE CITY" STATUS FOR WEST BERLIN WHILE INTIMATING POSSIBILITY OF "CONCESSIONS" RE 1) STATIONING ALLIED TROOPS AND 2) ACCESS ON BASIS "AGENT" PRINCIPLE. THIS STRESS ON "FREE CITY" STATUS MAY INDICATE SEVERANCE WEST BERLIN-FEDREP TIES IS PRIMARY COMMUNIST AIM IN CURRENT BERLIN CRISIS. (WE HAVE NOTICED GRUSON REPORT IN EUROPEAN EDITION NEW YORK TIMES MAY 26 STATING EAST GERMANS GENEVA HAVE MADE SIMILAR INDICATIONS TO WESTERN DELEGATIONS.) ULBRICHT MAY 27 STATEMENT RE ESTABLISHMENT UNITED NATIONS OFFICE IN "FREE CITY" ALSO FITS INTO THIS FRAMEWORK, AS DO REPEATED EAST GERMAN OFFERS SUPPLY WEST BERLIN WITH FOODSTUFFS AND PURCHASE WEST BERLIN PRODUCTS.

WEST BERLIN IS INTEGRAL PART OF WEST GERMAN ECONOMY AND IS NON-VIABLE ECONOMIC ENTITY. ECONOMIC PROGRESS WEST BERLIN HAS BEEN BASED ON INTER-DEPENDENCE AND INTEGRATION WITH FEDREP (COMMON CURRENCY, BANKING, TRADING, TAX AND LEGAL SYSTEMS) AND ALSO ON ITS DEPENDENCE ON FEDREP FOR DIRECT AND INDIRECT FISCAL AND MONETARY AID AND FLOW OF PRIVATE AND PUBLIC INVESTMENT FUNDS. FINALLY FEDREP IS MARKET FOR MAJOR PART WEST BERLIN PRODUCTION AND IS SOURCE OF SUPPLY FOR MOST WEST BERLIN IMPORT

SEVERANCE OF FISCAL AND FINANCIAL TIES WITH FEDREP WOULD

RESULT

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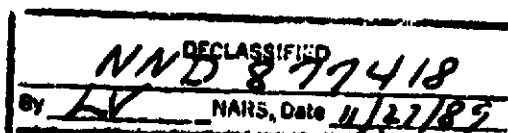
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RESULT IN DIMINISHED FLOW PRIVATE INVESTMENT FUNDS, CUT IN TRANSFER PAYMENTS AND SOCIAL SERVICES, INCREASED UNEMPLOYMENT, AND RESULT IN CITY BECOMING ECONOMICALLY VULNERABLE TO COMMUNIST PRESSURES.

ANY REARRANGEMENT OF ECONOMIC TIES, REGARDLESS OF HOW CAMOUFLAGED, WOULD CERTAINLY BE INTERPRETED BY BUSINESS AND POLITICAL LEADERS AS THREAT TO FUTURE ECONOMIC STATUS OF CITY AND WOULD ENGENDER FLOW OF CAPITAL AND PEOPLE FROM BERLIN.

EVEN THOUGH BERLINERS NOT SANGUINE REUNIFICATION PROSPECTS THEY HAVE MADE BEST OF CURRENT ISLAND POSITION AND CAN BE EXPECTED TO LIVE AND EVEN PROSPER UNDER STATUS QUO. PREPONDERANCE OF POLITICAL, LEGAL AND ECONOMIC TIES WITH FEDREP, COUPLED WITH DE FACTO ABANDONMENT OF GERMAN REUNIFICATION, COULD DESTROY PSYCHOLOGICALLY THEIR SENSE OF BELONGING AND CAUSE REAL DOUBT IN THEIR MINDS WHETHER US WOULD BE WILLING INCUR ULTIMATE RISKS WHEN COMMUNISTS SOME DAY THREATEN COMPLETE ABSORPTION OF "FREE CITY."

SUCH PSYCHOLOGICAL DETERIORATION WOULD LEAD TO LOW POLITICAL MORALE AND DESTROY SPIRIT OF RESISTANCE TO COMMUNIST CARROT AND STICK TACTICS. A "SAUVE QUI PEUT" ATTITUDE AMONG BUSINESS GROUPS AND INTELLIGENTSIA WOULD BE PROBABLE CONSEQUENCE WHILE THOSE WHO UNABLE OR UNWILLING PULL UP ROOTS AND GO TO WEST WOULD ATTEMPT MAKE THEIR OWN PEACE WITH EASTERN RULERS.

IT COULD BE THAT COMMUNISTS CALCULATE, REGARDLESS OF WHAT "ACCOMMODATION" THEY MAKE ON ACCESS AND STATUS ALLIED FORCES, IF THEY CAN SUCCEED IN SEVERING FEDREP-WEST BERLIN TIES, THEY WILL DOOM WEST BERLIN.

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